



Infrastructure Financing Recommendations Associated with the LG Energy Solution Development Agreement

Town Council Meeting

September 6, 2023

Outline of Presentation

1. Review LG Energy Solution Proposed Manufacturing Complex and the Town's Infrastructure Construction Requirements in the Development Agreement
2. Discuss the Interim Financing Recommendations for Construction of the Infrastructure Requirements
3. Review the Town's Outstanding Debt and Debt Coverage Requirements
4. Consider Approval of the Two Interim Financing Resolutions



Background

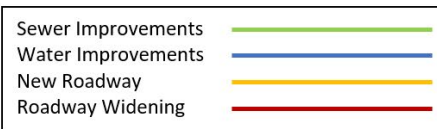
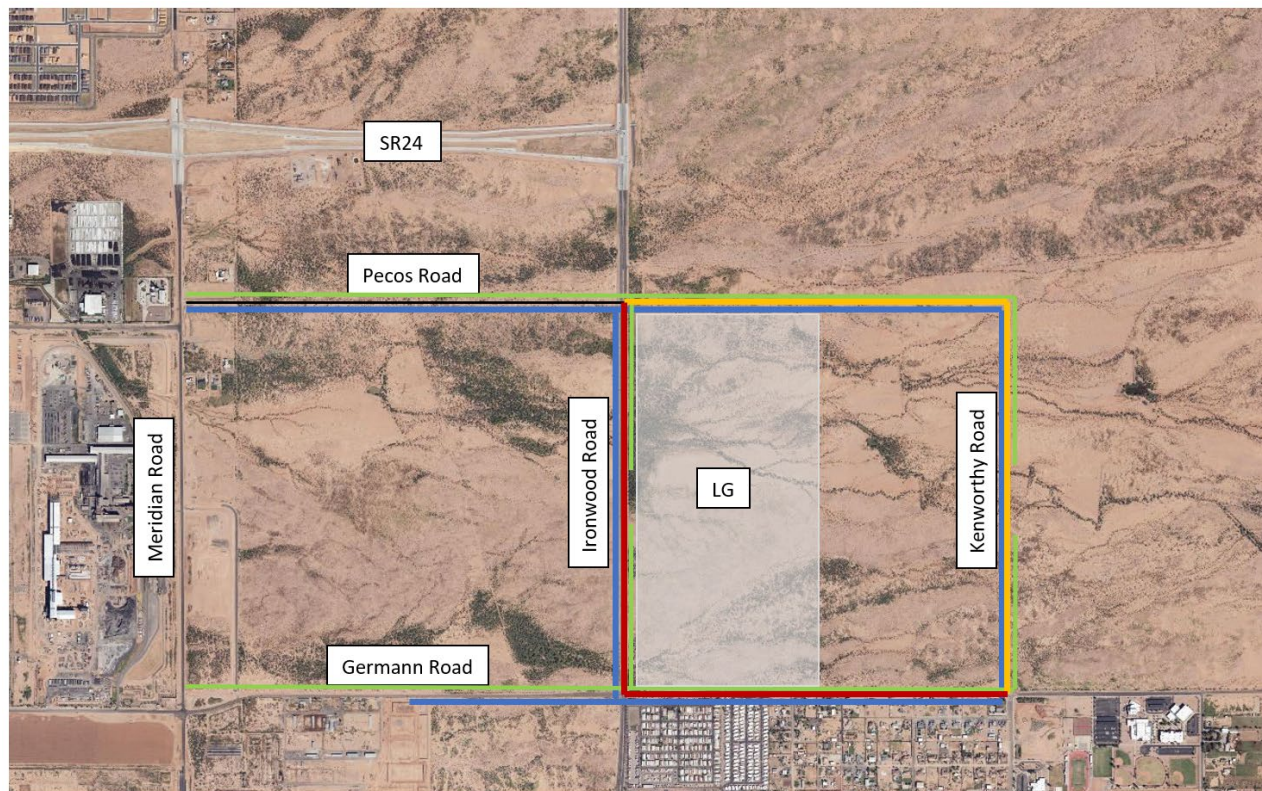
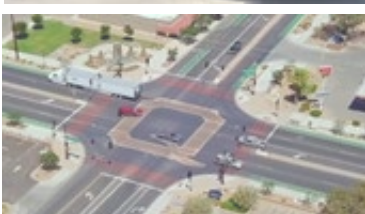
- LG Energy Solution Battery Manufacturing Complex
 - March 2022: Announced Construction of \$2.8B Complex
 - March 2023: Announced Complex Expansion to \$5.5B
- Largest Single Investment Ever for a Stand-Alone Battery Manufacturing Facility in North America
- Town's Largest Employer (When Constructed)
 - Significant One-Time and Annual Revenues (Direct and Indirect)

“LG will invest a total of \$5.5 billion to build a battery manufacturing complex in Queen Creek, Arizona. The complex will consist of two manufacturing facilities—one for cylindrical batteries for electric vehicles (EV) and another for lithium iron phosphate (LFP) pouch-type batteries for energy storage systems (ESS). The investment represents the largest single investment ever for a stand-alone battery manufacturing facility in North America.”

Development Agreement

- Approved by the Town Council in March 2022
- Town Agreed to Construct \$84M of Road and Water / Wastewater Infrastructure Adjacent to the Facility
 - ~\$12M Spent at June 30, 2023
 - Completion Expected by October 2025

Project Map: \$84M



Funding of Infrastructure Costs

- Infrastructure Costs Will be Repaid from Two, Site Specific Sources
 - Title 42 (State Construction Sales Taxes)
 - Queen Creek Construction Sales Tax Revenues (2% Dedicated Transportation Sales Tax and 2% Operating Budget Construction Sales Tax)
- Interim Financing is Needed as Construction Revenues are Not Being Generated Because Construction on the LG Facility Has Not Yet Started

	Title 42 (80%)*	Town Share (20%)	Total
Streets	\$35M	\$9M	\$44M
Water	\$16M	\$4M	\$20M
Wastewater	<u>\$16M</u>	<u>\$4M</u>	<u>\$20M</u>
Total	\$67M	\$17M	\$84M

*Assumes Full Award of Title 42 Funding (\$200M total cap for all projects, \$30M currently planned for LGES).

Interim Financing Recommendations

Two Recommendations

1. Interfund Loan at June 30, 2023 (Internal)
 - Represents Project Costs from Inception to October 31, 2023
2. External, Interim Funding
 - Represents Project Costs From October 31, 2023 to Expected Receipt of Initial Construction Sales Tax Revenues

Funding	Type	Amount	Interest	Term	Expenses Covered
1. Interfund Loan	Internal	\$23.4M	5% / \$265K	Paid Off on 10/31/23	Inception to 10/31/23
2. Interim	External*	\$50M	TBD (5% to 10% adjusted monthly) / \$3.5M Net Interest Expense	Paid Off No Later than 6/30/28	10/31/23 to Receipt of Title 42 and Construction Sales Tax Revenues

*The Town's Excise Taxes and State Shared Revenues will be the Revenues Pledged to Repay the Borrowing on a Subordinate Lien Basis.

Outstanding Debt Overview

Excise Tax Pledged Debt	Outstanding Amount
Existing	\$380M
Recommended Interim Borrowing	<u>\$50M</u>
TOTAL	\$430M

Debt Coverage Ratio

- Calculation: Revenues Legally Pledged to Make Annual Debt Payments Divided by Annual Debt Payments
- The Higher the Number Indicates More Revenues are Available to Make Annual Debt Payments
- Senior Lien Bond Legal Minimum: 3x
- Subordinate Lien Bond Legal Minimum: 2x (Recommended Borrowing)

	FY 2022-23 Actual	FY 2023-24 Estimate
Pledged Revenues (A)	\$130.2M	\$141.4M
Annual Debt Payments (B)	\$17.2M	\$21.4M
Coverage Ratio (A / B)	7.6	6.6

Recommended Motions



1. Approve Resolution No. 1536-23 As Presented
 - \$24.3M Interfund Loan, Interim Borrowing (Internal)
2. Approve Resolution No. 1535-23 As Presented
 - \$50M External, Interim Borrowing
 - Competitive Process to Select Financial Institution
 - Negotiate Financial Terms with Preferred Financial Institution
 - Expected Close of Escrow: October 31, 2023